

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6120

Tariff filing of Central Vermont Public Service)
Corporation requesting a 12.9% rate increase, to)
take effect July 27, 1998)

Docket No. 6460

Tariff filing of Central Vermont Public Service)
Corporation requesting a 7.6% rate increase,)
to take effect December 24, 2000)

PREFILED TESTIMONY OF
CAROLE E. WELCH
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

March 9, 2001

Summary: Ms. Welch proposes adjustments to the C&LM deferral and ACE amounts contained in the docket No. 6460 filing and addresses CVPS' Witness Bruce Bentley's proposal for an alternative to the ACE mechanism.

Prefiled Testimony
of
Carole E. Welch

1 Q. Please state your name and occupation.

2 A. My name is Carole Welch. I am an Energy Policy & Program Analyst for the Vermont
3 Department of Public Service ("Department" or "DPS").

4 Q. Please summarize your professional background and experience.

5 A. I have been an Energy Policy & Program Analyst for the DPS for over nine
6 years. During that time, I reviewed utility requests for cost recovery of demand side
7 management (DSM) expenditures and ACE (Accounting Correction for Efficiency)
8 amounts in a number of rate filings, and provided testimony on the results of my review
9 for many of those dockets. I have reviewed the DSM component of numerous utility
10 integrated resource plans submitted to the Vermont PSB for approval and provided
11 testimony as needed. I have participated in the negotiations concerning design and
12 implementation of DSM programs for dairy farm, small commercial & industrial, and
13 residential customers. More recently, I was an active participant in the negotiations and
14 subsequent regulatory procedures and processes that established the statewide Energy
15 Efficiency Utility and the energy efficiency charge ("wires charge). Prior to my
16 employment with the DPS, I was employed by the University of Vermont (UVM)
17 Extension Service as an Area Energy Agent. I have a BA in Mathematics from UVM
18 and have completed graduate level courses in natural resources planning at UVM.

19
20 Q. Have you previously testified before the Vermont Public Service Board?

1 A. Yes, I have testified in Dockets 5980, 6018, 5983, 5859, 5841/5859, 5863, 5809,
2 5701/5724, 5656, and a number of 5270 dockets, including 5270-LDLW-1, 5270-VM-1,
3 5270-NFLD-1, 5270-GMP-4, 5270-CUC-2, 5270-LYND-1, 5270-HDWK-1, 5270-
4 BRTN-1, 5270-RDSB-1, 5270-JHSN-1, 5270-ORLN-1, and 5270-MSVL-1.

5 Q. What is the purpose of your testimony?

6 A. My testimony proposes adjustments to the Company's C&LM deferral and ACE
7 amounts contained in the Docket No. 6460 filing and addresses CVPS' Witness Bruce
8 Bentley's proposal for an alternative to the ACE mechanism.

9 Q. Please summarize your testimony.

10 A. I support a reduction of \$ 253,623 in the total C&LM deferral amount the Company
11 seeks to recover in Docket 6460, shown in COS Adjustment 23 (Exhibit CVPS-Bentley-3),
12 and \$ 594,623 in the total ACE amount shown in COS Adjustment 24 (Exhibit CVPS-
13 Bentley-3). These two items result in an amortization expense reduction of \$ 347,728, plus
14 carrying cost and associated rate base modifications in CVPS' filed Cost of Service (COS).
15 These reductions are reflected in DPS Witness Schultz and Deronne prefiled testimony and
16 exhibits.

17 Additionally, I raise issues and concerns about, and thus decline to support, CVPS' witness
18 Bruce Bentley's proposed alternative to ACE contained in his prefiled testimony.

19 Q. Please discuss your proposed reduction in CVPS recovery of C&LM deferral amounts.

20 A. In its filing, CVPS includes certain estimated deferral amounts for the balance of the year 2000

1 and the first half of 2001 that it seeks to recover in Docket 6460. Consistent with past
2 practice, the Company updated these amounts in discovery by providing actual expenditures
3 through calendar year 2000. I propose the remaining estimated amounts for the first half of
4 2001 included in the filing (COS 23 A, lines 37 and 39 (Exhibit CVPS-Bentley-3)) be
5 excluded. They are not now known and measurable and the Company can seek their recovery
6 in a future proceeding. This reduces the total amount by \$258,623, plus associated
7 modifications to the calculated carrying costs. DPS witnesses Schultz and Deronne reflect this
8 adjustment in their testimony and exhibits.

9 Q. Please explain your proposed reduction to the ACE amount?

10 A. In its filing, CVPS' net lost revenues (ACE amounts) are calculated for efficiency measures
11 installed from April 1998 through June, 2000, for the period April 1998 through June 2001. In
12 calculating the production savings it experienced during this time from the installation of these
13 measures, the Company used only one set of costing period amounts to represent the marginal
14 cost of the kWh avoided due to efficiency installations. The ACE, or net lost revenue, amount
15 is, at its simplest, the gross lost revenue minus the production savings and other incremental
16 operational savings experienced by the Company during the calculation period. As monthly
17 marginal energy costs are actual, known amounts up to the filing time, CVPS should have used
18 actual system or NEPOOL lambda's for the period prior to May 1999, and the actual ISO-NE
19 monthly market clearing prices from May 1999 up to the rate filing docket date, or through
20 October 2000. As the Company must project the monthly production savings for the period
21 between the rate filing and the beginning of the rate year, a reasonable proxy for the monthly
22 clearing price for this period has historically been the monthly actual prices for the most recent
23 12 months.

1 Given these circumstances, a recalculation of the ACE amount using actual prices that were
2 known at the time of the filing. The result of this recalculation is a decrease of \$248,657 in
3 ACE, from a total \$3,729,153 to \$3,480,496.

4 Q. Is this the adjustment amount you support?

5 A. No. At this writing, four more months of actual ISO-NE market clearing prices are known and
6 available. Using the actual monthly ISO-NE market clearing prices through February 2001 and
7 then applying projected prices through June 2001 based on the previous year's actual monthly
8 values further increases the Company's production savings and thereby further reduces the net
9 lost revenue amount. This changes the ACE total amount CVPS should recover in Docket
10 6460 from \$3,729,153 to \$3,135,098. DPS witnesses Schultz/Deronne have calculated the
11 effect on the COS from this change.

12 Q. In prefiled testimony, CVPS witness Bruce Bentley proposes a rate making alternative to the
13 ACE mechanism for savings acquired by the statewide Energy Efficiency Utility (EEU). Please
14 comment.

15 A. Mr. Bentley's testimony appears to do three things. First, he proposes that, after 1/1/02, the
16 ACE mechanism for EEU savings be replaced by changing how rates are set. He proposes
17 that the test year load be adjusted for the projected EEU savings in CVPS's territory during the
18 rate year. Second, in the alternative, he proposes that the Board extend the ACE mechanism
19 with respect to EEU savings until 1/1/03. Third, he argues that there would be a takings claim if
20 there is no ACE or replacement rate making mechanism.

1 This testimony arises primarily from the approved Docket 5980 MOU, and in particular, items
2 43 and 44 of the Docket 5980 MOU which is CVPS Exhibit Bentley - 7, p. 22.

3 Q. Briefly summarize these items.

4 A. Paragraph 43 sets out certain concerns that the DU (Distributed Utility) may present in
5 evidence and argument in a rate case regarding an ACE replacement mechanism. Paragraph
6 44 sets forth a process for examination, development, and implementation by the Parties to
7 determine any rate making changes that are necessary to allow utilities a reasonable opportunity
8 to earn their allowed return when ACE is eliminated. The balance of my testimony addresses
9 these items as they relate to this docket.

10 Q. Has CVPS provided evidence in this case to support the need for ACE or an alternative
11 mechanism?

12 A. Mr. Bentley provides little evidence in his prefiled testimony or in the discovery process that is
13 persuasive in demonstrating “the extent to which revenue erosion due to core programs savings
14 has or will have an effect on the DU’s opportunity to earn its allowed return,” as stated in the
15 5980 MOU, paragraph 43, item (a). CVPS’ evidence appears to be almost exclusively a
16 compilation of ACE amounts since 1989, referencing its COS Adjustment 24 and RB No. 11
17 presented in Docket 6460 and providing separately a summary of this data, the net income
18 reduction after taxes, and CVPS’ total net income for each year from 1989 through 2001. I
19 attach this information, provided in a discovery response, as Exhibit DPS-Welch-1.
20 Curiously, Mr. Bentley’s testimony assumes a flat load, though discovery from CVPS shows
21 load growth for 4 of the past 5 years for the Company and its load forecast shows load growth
22 for each of the next five years. In fact, CVPS’s own projections show net load growth *after*

1 EEU program savings in every year. See Exhibit DPS-WLR-1, p. 2. In summary, the
2 “analysis” presented does not demonstrate that the Company needs ACE or an alternative
3 mechanism to be provided an opportunity to earn its allowed return.

4 Q. Are there other aspects of this issue to consider?

5 A. Of primary consideration is the historic purpose of ACE set forth in Docket 5270. ACE was
6 instituted as a mechanism to recover net lost revenues to remove the disincentive to a utility
7 *from its own efforts* in implementing effective DSM programs. By agreement, Efficiency
8 Vermont program implementation satisfies certain requirements of utilities contained in § 218c.
9 However, EVT programs are not utility efforts. For this reason alone, a continued ACE
10 mechanism or alternative mechanism is not indicated.

11 Q. Mr. Bentley has proposed, as an alternative to ACE, that in a rate case, the adjusted test year
12 (rate year) load be adjusted downward to incorporate the expected effects of the EEU’s
13 programs during that year. Do you have any comments on his proposal?

14 A. A number of thoughts come to mind. First, CVPS or any other utility has the ability to bring a
15 rate case in the event a reduced load causes a shortfall in revenues, just as it can in the event
16 other parts of the cost of service or operation assumptions prove inaccurate. Second, the
17 proposed use of the EEU projection of savings does not meet the “known and measurable”
18 test. Projections of savings can be quite different from actual savings acquired during a specific
19 period of time. Third, Mr. Bentley seems to be saying that if state policy actively promotes
20 reduction of electrical energy use, it has an obligation to provide a compensatory rate making
21 mechanism beyond the opportunity for a utility to seek new rates. Under this theory, appliance
22 energy efficiency standards, tax incentives, and other efficiency activities could require
23 comparable adjustments. Finally, it would be both biased and unreasonable to adjust loads for

1 this factor and not for other, potentially offsetting factors such as CVPS's promotional
2 economic development program.

3 Q. What is your recommendation?

4 A. First, the Board should deny Mr. Bentley's proposal to extend ACE for EEU savings for an
5 additional year. This proposal does not conform to the approved Docket 5980 MOU, under
6 which ACE for EEU activities ends by 1/01/02 and utilities may propose a replacement
7 mechanism "other than ACE." Second, if the Board is interested in pursuing the concept of
8 projected rate year load adjustments in lieu of ACE, such a proposal would need considerable
9 discussion and analysis. The Docket 5980 MOU provides for an examination of this issue and
10 the DPS remains open to discussions with CVPS.. If Vermont is ready to examine changes in
11 its rate making practice and adjust rate year loads, the Board should look at other factors
12 besides the impact of DSM savings on net revenue. These additional factors might include load
13 growth, weather adjustments, and any other reasonably predictable factors that affect retail
14 electricity consumption and revenues.

15 Q. For the Docket 6460 proceeding, what is your conclusion?

16 A. The Company has not met its burden of analysis or reasoning contemplated by the Docket
17 5980 MOU to support the need for continued DU ACE recovery for EVT efficiency activities
18 or an alternative and therefore the Board should deny the Company's request. Even if the
19 Company had made a persuasive argument for the need for a "lost revenue" mechanism,
20 CVPS's proposed alternative would not be workable for the reasons given above.

1 Q. Does that conclude your testimony at this time?

2 A. Yes.